

PURE SILVER MINES LIMITED

REPORT OF THE DIRECTORS

Free

PURE SILVER MINES LIMITED

Third Annual Report

as at March 31, 1969

PURE SILVER MINES LIMITED

Directors A. J. ANDERSON, Toronto, Ontario
W. S. EPLETT, Willowdale, Ontario
W. H. GROSS, Mexico City, Mexico
E. L. SAMUEL, Port Credit, Ontario
R. C. STONE, Agincourt, Ontario
D. E. G. VASEY, Toronto, Ontario

Officers A. J. ANDERSON, President
W. H. GROSS, Vice-President and Managing Director
WILFRED MCKINNON, Vice-President, Northern Canada
T. F. C. COLE, Secretary
W. S. EPLETT, Treasurer

Auditors THORNE, GUNN, HELLIWELL & CHRISTENSON
Toronto, Ontario

Registrar and Transfer Agent MONTREAL TRUST COMPANY
Toronto, Ontario and Vancouver, British Columbia

PURE SILVER MINES LIMITED

REPORT OF THE DIRECTORS

TO THE SHAREHOLDERS:

The Directors take pleasure in presenting the Third Annual Report on the operations of your Company. This covers the year ended March 31, 1969, and includes the Financial Statements and your Auditors' Report.

A number of interim communications to shareholders were issued during the year reporting on the progress of work being done on our various interests in Mexico. The results of such work, in total, have been quite gratifying and are fully described by your Vice-President and Managing Director in his accompanying report dated July 4, 1969.

We are pleased to advise that the joint venture association with Cia Fresnillo, S.A. and Metalurgica Mexicana Penoles, S.A. on three of the properties has proven very satisfactory.

The following will provide a summary of your Company's property interests at the year end:

- (a) Logjam Creek: the Company holds all interest in 19 mineral claims in the Yukon.
- (b) Cebada: the Company holds an option with respect to shares of Cia. Minera Cebada, S.A., which owns the Cebada mining property.
- (c) Peregrina: the Company holds an option with respect to shares of Neg. Minera Santa Lucia, which owns the Peregrina mining property.
- (d) San Pedro Mill: the Company holds an option with respect to an interest in the San Pedro Mill, which, like the mining properties above mentioned, is in the Guanajuato Mining Camp of Mexico.
- (e) Mexex: the Company owns 92% of the issued shares of Mexico Exploration (Canada) Limited which holds: (i) 30% of the shares of Cia Minera Las Torres, S.A., which in turn holds the Veta Madre property, and other properties. (ii) 34% of the shares of Plata de Guanajuato, S.A. which, as mentioned in the Company's prospectus of April 5, 1968, has been negotiating to acquire Mexican national reserve ground as an extension of the Mother Lode Vein beyond the Veta Madre property. (iii) 75% interest in the Goodchild Lake, Ontario claims.
- (f) Tormex: the Company owns 8.6% of the issued shares of Tormex Mining Developers Limited.

Early in the year the Company received funds from an issue of \$750,000 face value of 8% Convertible Income Debentures. Shortly afterward options on an aggregate of 75,000 shares were exercised for \$37,500. The financial situation of the Company continued healthy with a private placement late in the year of 30,000 shares at \$7.75 net for \$232,500. To date, the Company's long-term indebtedness has been reduced by the conversion of \$89,000 of the debentures.

Your Directors consider that the past year has been very productive and that we can, with reasonable confidence, look forward to the current year for equal, or better, developments. The policy of issuing interim progress reports to registered shareholders will be continued.

Respectfully submitted

On behalf of the Board,

Toronto, Ontario
July 8, 1969

A. J. ANDERSON,
President

PURE SILVER MINES LIMITED

(Incorporated under the laws of Ontario)

and subsidiary company, Mexico Exploration (Canada) Limited

CONSOLIDATED BALANCE SHEET – MARCH 31, 1969

(with comparative figures at March 31, 1968—note 8)

	ASSETS	1969	1968
CURRENT ASSETS			
Cash.....		\$ 16,403	\$ 1,516
Short-term securities and accrued interest.....		390,614	
Sundry advances.....		6,009	5,240
		413,026	6,756
MINING CLAIMS			
19 claims in the Watson Lake Mining District, Yukon Territory, acquired for 750,000 shares of capital stock issued at 20¢ each.....		150,000	150,000
54 unpatented claims in the Goodchild Lake Area, Ontario (75 % interest)		5,270	
		155,270	150,000
INVESTMENT IN ASSOCIATED COMPANIES			
Tormex Mining Developers Limited, at cost (note 2).....		75,000	
Other associated companies			
Shares (note 3).....		75,000	
Advances.....		77,150	
		227,150	
OTHER ASSETS AND DEFERRED CHARGES			
Advances for Mexican exploration.....		18,886	
Other advances (subsequently received).....		24,884	
Deposit held by trustee (note 5b).....		98,000	
Equipment, at cost.....		33,405	30,500
Exploration, administrative and other expenditures deferred.....		615,804	283,145
Organization expenses deferred.....		4,803	3,243
		795,782	316,888
		\$1,591,228	\$473,644
	LIABILITIES		
CURRENT LIABILITIES			
Bank loan.....			\$ 5,000
Accounts payable and accrued liabilities.....		\$ 14,724	33,644
		14,724	38,644
INCOME DEBENTURES			
8 % Convertible income debentures, due April 1, 1978, secured by shares of subsidiary company (note 6).....		681,000	
INTEREST OF MINORITY SHAREHOLDERS IN SUBSIDIARY COMPANY.....		24,004	
	SHAREHOLDERS' EQUITY		
CAPITAL STOCK (note 7)			
Authorized—5,000,000 shares without par value			
Issued —2,424,000 shares (1968, 2,100,000 shares).....		871,500	435,000
		\$1,591,228	\$473,644

Approved by the Board

A. J. ANDERSON, Director

W. S. EPLETT, Director

PURE SILVER MINES LIMITED
and subsidiary company, Mexico Exploration (Canada) Limited

**CONSOLIDATED STATEMENT OF EXPLORATION, ADMINISTRATIVE AND OTHER
EXPENDITURES DEFERRED – YEAR ENDED MARCH 31, 1969**

(with comparative figures for 1968)

EXPLORATION EXPENDITURES	1969	1968
Mexico		(note 8)
Project participation—Cebada, Peregrina and La Veta Madre		
Joint venture expenditures.....	\$270,458	
Less expenditures of participants (70%).....	189,321	
Project participation (30%).....	81,137	
Expenditures on the Peregrina property for the period (July 14, 1967 to May 6, 1968) prior to the initiation of the joint venture project		
Exploration.....	51,976	
Legal.....	6,454	
	58,430	
Other field expenditures		
Engineering fees and expenses.....	28,674	4,436
Legal.....	4,543	16,163
Sundry.....	5,656	8,947
	38,873	29,546
Other areas		
Goodchild Lake.....	20,298	
Yukon.....	1,430	128,881
	21,728	128,881
	200,168	158,427
ADMINISTRATIVE EXPENSES		
Rent.....	4,876	
Legal.....	42,883	20,805
Accounting and audit.....	5,450	3,100
Printing and stationery.....	1,921	2,669
Telephone and telegraph.....	2,310	244
Transfer agency fees.....	5,162	1,156
Administrative fees.....	6,400	
Travel and accommodation.....	4,848	
Miscellaneous.....	3,326	2,740
	77,176	30,714
FINANCING EXPENSES		
Debenture discount.....	75,000	
Debenture issue expenses.....	17,846	12,500
	92,846	12,500
	370,190	201,641
DEDUCT		
Interest earned.....	25,153	
Excess of book value of subsidiary company's net assets over cost of acquiring shares.....	28,501	
	53,654	
EXPENDITURES (net) for the year.....	316,536	
Balance deferred at beginning of period (including for 1969, \$16,123 deferred by subsidiary company).....	299,268	81,504
Balance deferred at end of year.....	\$615,804	\$283,145

PURE SILVER MINES LIMITED

and subsidiary company, Mexico Exploration (Canada) Limited

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS YEAR ENDED MARCH 31, 1969

(with comparative figures for 1968)

	<u>1969</u>	<u>1968</u> (note 8)
SOURCE OF FUNDS		
Issue of convertible income debentures.....	\$675,000	
Issue of capital stock for cash.....	<u>270,000</u>	<u>\$120,000</u>
	<u>945,000</u>	<u>120,000</u>
APPLICATION OF FUNDS		
Exploration, administrative and other expenditures*.....	270,037	201,641
Purchase of shares in Tormex Mining Developers Limited.....	75,000	
Funds deposited with trustee under the Peregrina option agreement.....	98,000	
Advances for Mexican exploration.....	18,886	
Purchase of equipment.....	2,905	
Advances to associated companies.....	12,796	
Working capital deficiency of subsidiary company acquired.....	<u>37,186</u>	
	<u>514,810</u>	<u>201,641</u>
Increase (decrease) in working capital position.....	430,190	(81,641)
Working capital (deficiency) at beginning of year.....	<u>(31,888)</u>	<u>49,753</u>
Working capital (deficiency) at end of year.....	<u>\$398,302</u>	<u>\$(31,888)</u>
*Expenditures (net) for the 1969 fiscal year.....	\$316,536	
Less non-fund items		
Discount on issue of debentures.....	\$ 75,000	
Excess of book value of subsidiary company's net assets over cost of acquiring shares.....	<u>(28,501)</u>	<u>46,499</u>
	<u>\$270,037</u>	

AUDITORS' REPORT

To the Shareholders of
PURE SILVER MINES LIMITED

We have examined the consolidated balance sheet of Pure Silver Mines Limited and subsidiary company, Mexico Exploration (Canada) Limited as at March 31, 1969 and the consolidated statements of exploration, administrative and other expenditures deferred and source and application of funds for the year then ended. Our examination of the financial statements of Pure Silver Mines Limited of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the subsidiary company.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at March 31, 1969 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
May 20, 1969

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants

PURE SILVER MINES LIMITED

and subsidiary company, Mexico Exploration (Canada) Limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – MARCH 31, 1969

1. Basis of Consolidation

In accordance with an agreement dated February 29, 1968, the company acquired 92% of the shares of Mexico Exploration (Canada) Limited (Mexex). The consolidated financial statements include the accounts of Mexico Exploration (Canada) Limited for its fiscal year ended December 31, 1968. On consolidation, a credit balance arises because the book value of the net assets of the subsidiary company exceeded the cost of the shares. This credit has been deducted from deferred exploration and administrative expenditures.

As agreed on purchase of the interest in Mexex

- (a) The company has reserved for issue at 65¢ per share a further 50,000 shares of its capital stock if Plata de Guanajuato, S.A. (a company in which Mexex has a 34% interest) obtains certain mining concessions by February 28, 1978;
- (b) As part consideration for the acquisition of shares of Mexex, the company granted an option to purchase an aggregate of 300,000 shares of the company's capital stock which is exercisable only after 180 days of production at 200 metric tons of ore per day from any of the properties owned by the Mexican affiliates of Mexex and having proved ore reserves of not less than 100,000 metric tons, and before October 31, 1977, as follows:
100,000 shares at \$2.00 per share 100,000 shares at \$2.50 per share 100,000 shares at \$3.00 per share;
- (c) An option until October 31, 1970 to purchase at 40¢ per share 100,000 unissued shares of Mexex is held in trust for the company.

2. Investment in Tormex Mining Developers Limited

The investment in Tormex Mining Developers Limited consists of 150,000 shares and 75,000 warrants expiring March 16, 1970 entitling the holder to purchase one common share for 80¢ for each warrant held.

3. Investment in Shares of Other Associated Companies

The subsidiary company owns 2,450 shares (49% interest) in Cia Minera Las Torres, S.A. and 170 shares (34% interest) in Plata de Guanajuato, S.A. The shares were acquired for 750,000 shares of the subsidiary valued at \$75,000.

By agreement dated February 23, 1968, the subsidiary granted an option until February 23, 1972 to Compania Fresnillo, S.A. and Metalurgica Menicano Penoles, S.A. to acquire 950 shares in Cia. Minera Las Torres, S.A. (19% interest) for U.S. \$7,600, less debts of Torres at the date the option is exercised. During the currency of the option, Fresnillo, Penoles and the subsidiary must pay for and cause to be drilled a minimum of 900 linear meters in one or more diamond drill holes on the "Veta Madre" property owned by Cia. Minera Las Torres, S.A. The subsidiary company is required to contribute 30% of the cost of drilling.

4. Options to Purchase Mexican Mining Interests

(a) ASSIGNMENT OF OPTIONS

With the approval of the shareholders, the company acquired an assignment of two options to purchase Mexican mining interests. In consideration for the assignment, the company granted an option on 250,000 shares of its capital stock at 50¢ per share. The option has been exercised with respect to 75,000 shares and may be exercised with respect to 50,000 shares by May 10, 1971 and with respect to the remaining 125,000 shares within 18 months after the company has exercised its rights under either of the two options assigned. These two options were renegotiated as the Cebada option and Peregrina option referred to in subsections (b) and (c) below.

(b) CEBADA OPTION

Under this agreement the company, along with Compania Fresnillo, S.A. (Fresnillo) and Metalurgica Mexicana Penoles, S.A. (Penoles), has an option until February 22, 1970

- (i) to acquire 75% of the shares of Compania Minera Cebada, S.A. (the Cebada company) and certain machinery and equipment for U.S. \$75,000 and 225,000 shares of the company's capital stock and
- (ii) to acquire the "San Pedro" mill and other equipment for U.S. \$100,000.

During the option period, the company, Fresnillo and Penoles are required to maintain a minimum balance of U.S. \$5,000 monthly (company's share, \$1,500) on deposit to meet exploration expenditures on the Cebada properties.

If the options are exercised, the company is to have a 30% interest in the Cebada shares and the machinery and equipment and is required to contribute as consideration as follows:

- (i) For the Cebada shares and certain machinery and equipment, U.S. \$30,000 and 225,000 shares of the company's capital stock, for which the company is to be partially compensated by receiving U.S. \$101,250 from Fresnillo and Penoles;
- (ii) For the "San Pedro" mill and other equipment, U.S. \$30,000.

(c) PEREGRINA OPTION

Under this agreement the company, along with Compania Fresnillo, S.A. (Fresnillo) and Metalurgica Mexicana Penoles, S.A. (Penoles) has an option until November 1, 1969 to acquire all the Class A and Class B shares of Negociacion Minera Santa Lucia, S.A. (the Santa Lucia company) and the debt of the Santa Lucia company presently owing to a Canadian company of Cdn. \$450,243 in consideration for Cdn. \$200,000 and 500,000 shares of the company's capital stock. The company, Fresnillo and Penoles are required to spend Cdn. \$240,000 on exploration and development of the Santa Lucia properties. As at March 31, 1969 the company had expended \$226,342.

If the option is exercised, the company is to receive Class B shares representing a 30% interest in the Santa Lucia company and a 30% interest in the purchased debt and is required to contribute for the Santa Lucia shares and purchased debt—Cdn. \$139,920 and 500,000 shares of the company's capital stock for which the company is to be partially compensated by receiving Cdn. \$342,420 from Fresnillo and Penoles, which amount is receivable as to Cdn. \$79,920 on exercising the option and by 24 monthly instalments of Cdn. \$10,937.50 each.

5. Peregrina Option—Additional Undertakings

The arrangements for acquisition of the Peregrina option include undertakings by the company as follows:

- (a) If either Fresnillo or Penoles propose to exercise the Peregrina option, the company has agreed to join in making the purchase provided for in the option agreement;
- (b) The company has deposited Cdn. \$98,000 with a trustee to be used to make any payments required to be made by the company in exercising the Peregrina option;
- (c) During the term of the Peregrina option agreement the company will not, without the consent of one of the parties to the Peregrina option agreement, issue more than 2,225,000 shares of its capital stock in excess of the number of shares issued on January 1, 1968 (2,100,000 shares) and will not alter its capital structure;
- (d) For two years after the exercise of the Peregrina option, provided that at least 200,000 of the company's shares are owned by one of the parties to the Peregrina option agreement, none of the Class B shares of Santa Lucia acquired by the company under the option agreement shall be disposed of without the consent of such party.

6. Debentures

During the year ended March 31, 1969 the company issued \$750,000 8% convertible income debentures. The debentures may be converted into shares of the company at any time prior to October 1, 1977 at the rate of 500 shares per \$500 principal amount of debentures. Interest is payable on June 30 each year at 8% per annum only to the extent that the company has made a net profit (defined in the Trust Indenture) in its immediately preceding fiscal year.

During the period ended March 31, 1969 \$69,000 debenture principal was converted into 69,000 shares of the company's capital stock.

7. Capital Stock

- (a) During the year ended March 31, 1969 shares were issued as follows:

105,000 shares for \$270,000 cash (1968—300,000 shares for \$120,000 cash)
150,000 shares for \$97,500 as partial consideration for 1,215,046 shares of Mexico Exploration (Canada) Limited
69,000 shares on conversion of \$69,000 debentures

- (b) If all options to purchase and conversion rights are exercised, the company would be required to issue shares of its capital stock as follows:

Transaction	No. of shares
(i) Options outstanding	
Assignment of Mexican mining interest.....	50,000
(ii) Conditional options	
On exercise of Peregrina or Cebada options.....	125,000
On Veta Madre achieving specified production requirements.....	300,000
On negotiation of acceptable option respecting Compania Minera Del Cubo S.A. De C.V.	10,000
(iii) Conditional purchase obligations	
On acquisition of specified additional property by the subsidiary.....	50,000
On exercise of the Cebada option.....	225,000
On exercise of the Peregrina option.....	500,000
(iv) Conversion of debentures.....	681,000
	<u>1,941,000</u>

8. Comparative Figures

As the subsidiary company was acquired during the year ended March 31, 1969, only the 1969 figures are on a consolidated basis. Certain of the 1968 figures have been reclassified for comparative purposes.

Technical Report

President and Directors,
PURE SILVER MINES LIMITED,
Suite 2306, 401 Bay Street,
Toronto 1, Ontario.

Dear Sirs:

This report covers the Company's mining activities during the fiscal year ended March 31, 1969, and the current year to date in so far as the diamond drilling is concerned on the Mother Lode Property.

In May, 1968 Pure Silver Mines Limited signed agreements with two large Mexican mining companies, Compania Minera Fresnillo, S.A. and Metalurgica Mexicana Penoles, S.A., to participate in exploration and development of silver properties in the Guanajuato district of Mexico. The original properties whose locations are shown in Figure 1 are:

<u>Property</u>	<u>Approximate Size</u>
The Mother Lode (Veta Madre).....	650 acres
Peregrina.....	600 acres
Cebada.....	630 acres
TOTAL.....	1,880 acres

Fresnillo, Penoles and the Company as a group are also obtaining or negotiating to obtain through Mexican nominees, by staking or option, interests in additional ground of merit in the Guanajuato mining camp to a total of about 2,450 acres.

Mother Lode

Since its discovery in the 16th Century the Mother Lode fault zone is believed to have produced more gold and silver than any other single structure in the world. The most productive zone on this structure occurs below andesitic lavas. In the area of the old mines, the andesite lava was removed by erosion and the ore bodies were exposed as outcrops. On the property held by the Pure Silver Group the "productive" zone below the andesite was thought to have been dropped down about 1,000 feet by a post ore cross fault.

A longitudinal projection in Figure 2A shows the location of some of the old ore bodies and the possible faulted extension of the "productive" zone onto the ground held by the Pure Silver Group, which covers a length of about two miles of the structure south from the fault.

In September, 1968 a program of deep drilling was started to explore the Mother Lode structure at depth below the andesite. To date diamond drill holes 1 to 3 totalling approximately 4,500 feet have been completed. No. 4 hole is well advanced and should be completed soon. A second drill has been brought to the property and hole 5 is also currently drilling. The approximate location of the drill holes completed to date is shown in Figure 2A and a section through holes 1 and 2 is shown in Figure 2B.

A summary of the drill hole results follows:

	<u>Assay Results</u>		<u>True Width</u>
	<u>Gold</u>	<u>Silver</u>	
Hole No. 1.....	0.13	17.0 oz.	33.3 ft.
Hole No. 2.....	0.07	12.7 oz.	67.6 ft.
Hole No. 3.....	0.08	15.0 oz.	6.3 ft.

It can be seen from Figure 2A that only a small portion of the potential ore zone on the property has been tested to date. The structure as found in the drill holes is very strong and a number of additional holes will be drilled to explore more fully the ore zone along strike and down dip. In addition to surface drilling it is expected that an early decision will be made to go underground in order to speed up the development of the property.

Peregrina

The Peregrina property has been divided into two separate sections called the New Mine and the Old Mine.

In the New Mine the veins are covered by andesite lava, they do not outcrop, they have not been mined, they have only been discovered and opened up by the recent work program. At present six drift and two

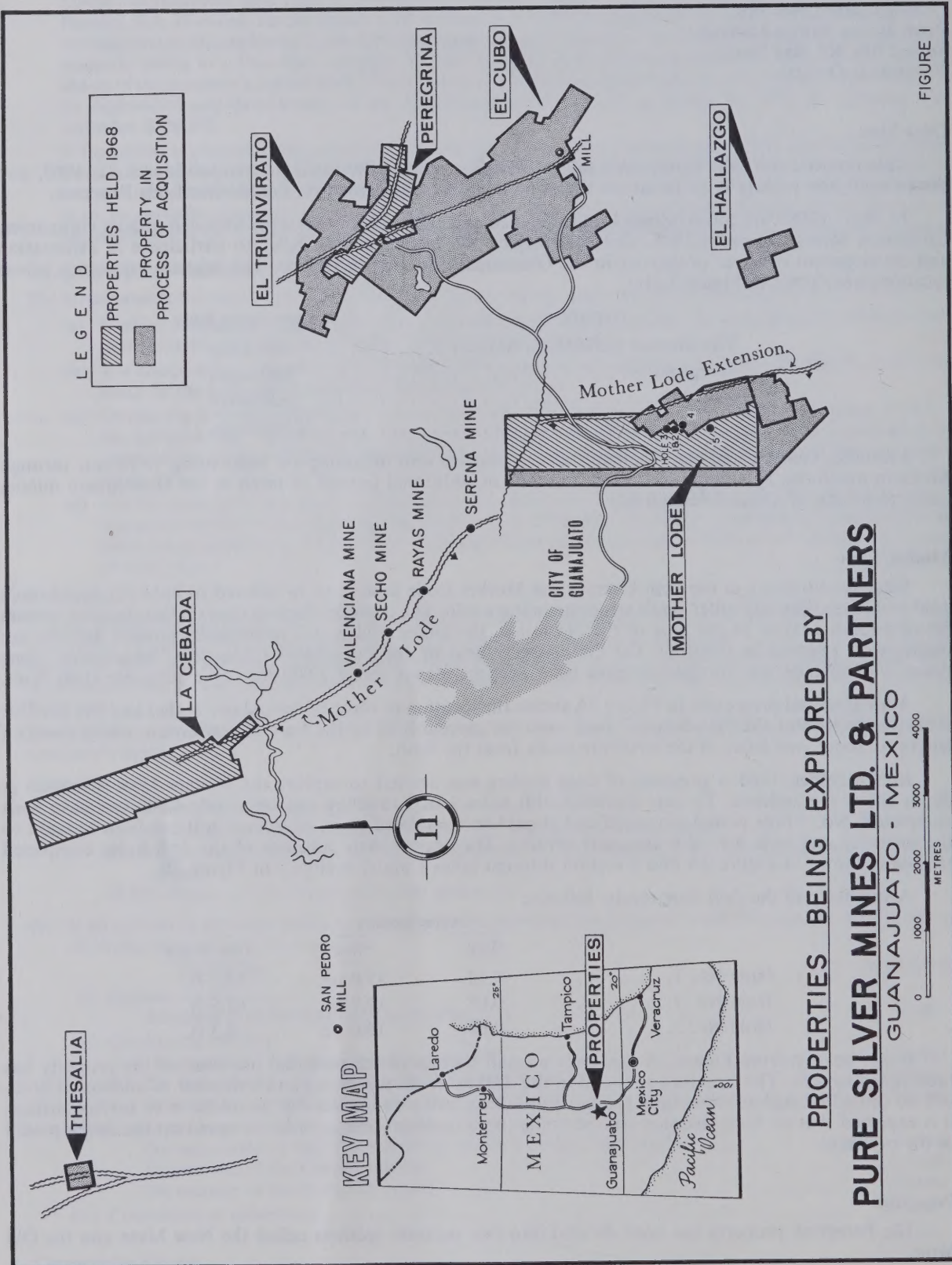


FIGURE 1

PROPERTIES BEING EXPLORED BY
PURE SILVER MINES LTD. & PARTNERS
 GUANAJUATO - MEXICO

diamond drill crews are working in this section of the property. Since the work started in May, 1968, approximately 3,300 feet of drifting and crosscutting have been done on two levels of the mine and 22 diamond drill holes totalling approximately 4,700 feet have been completed.

Work to date in the New Mine area has indicated approximately 300,000 tons of ore grading 15.2 ounces of silver and 0.14 ounces of gold. During the coming year approximately 4,000 feet of drifting, crosscutting and raising and approximately 10,000 feet of diamond drilling are planned. This work will serve to block out the ore bodies indicated to date and to explore the extensive area of virgin ground still remaining within the New Mine.

In the Old Mine area, many of the ore bodies outcrop, they were discovered years ago and they have been extensively mined. In the coming year it is planned to open up the Old Mine to resample exposed veins and to diamond drill the walls to explore for new veins.

Ore from the underground development will continue to be shipped to the San Pedro and Cubo Mills so that during the year a considerable cash flow will be generated from Peregrina. It is expected that by the end of the coming year the property will be ready to produce ore at the rate of about 300 tons per day.

La Cebada

A 1,000 foot, two compartment shaft is being sunk at Cebada as a first stage in the development of an indicated ore body located by deep surface drilling underneath an old mine located on the N. W. extension of the Mother Lode structure. During the year a power line was brought to the property and a complete surface plant was installed. Shaft sinking started in November, 1968 and has now reached a depth of approximately 350 feet. The slow progress in shaft sinking was caused by weak and caving ground near the surface. Better progress with the shaft is expected now that more solid rock has been encountered at depth. In order to have time to fully explore this property, the working option will likely be extended to May 3, 1971. It is expected that by then the property will be ready for production at approximately 200 tons per day.

Other Properties

During the year work was done on the La Morita lead, zinc and silver, the Torrecitas tin and the Lomo de Toro mercury properties. These properties proved to be too small and low-grade to be of interest to the Company and they have been dropped.

Goodchild Lake

Diamond drilling started on the Goodchild Nickel property in July, 1969. Results from the drilling have not been received as yet.

Logjam Property

No work was done during the year on the Logjam silver-gold property in the Yukon.

Respectfully submitted

W. H. GROSS
Managing Director

Mexico City,
July 4, 1969

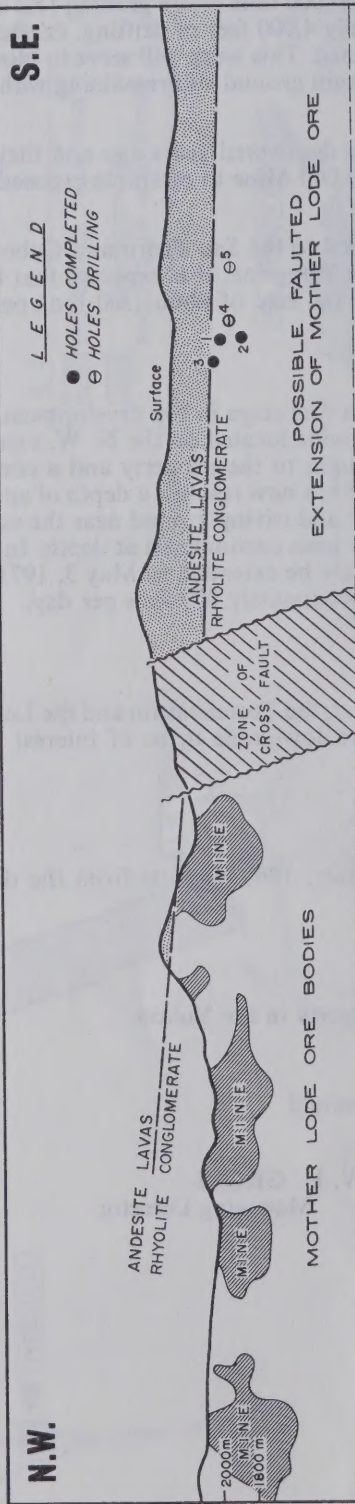


FIGURE 2A
LONGITUDINAL SECTION SHOWING
LOCATION OF DIAMOND DRILL HOLES

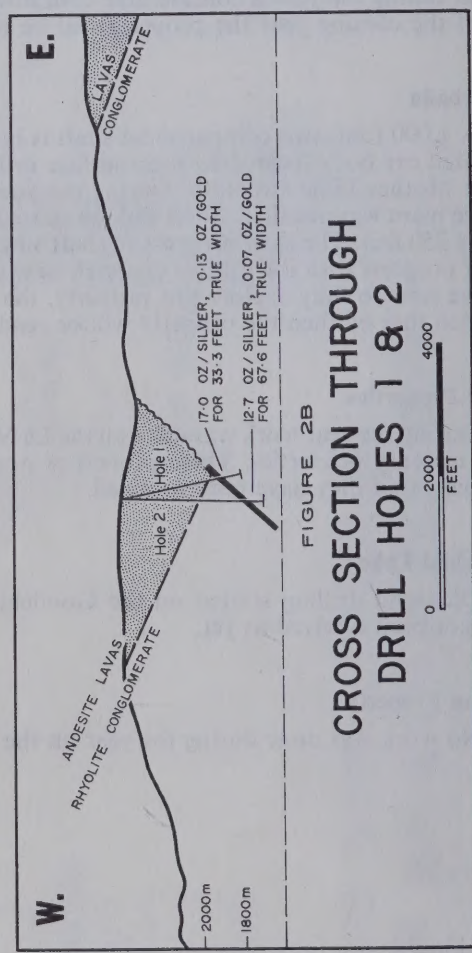


FIGURE 2B
CROSS SECTION THROUGH
DRILL HOLES 1 & 2